

Governor, 1857-1863
(Governor B. Harris)

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MESSAGE

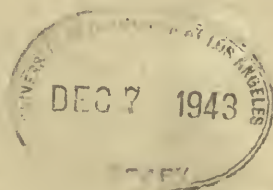
OF

GOVERNOR HARRIS

TO

Both Houses of the General Assembly,

DECEMBER 17, 1857.



MESSAGE

OF

ISHAM G. HARRIS,

GOVERNOR OF TENNESSEE,

TO

BOTH HOUSES OF THE GENERAL ASSEMBLY,

DECEMBER 17, 1857.



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MESSAGE.

EXECUTIVE DEPARTMENT, }
Nashville, December 16, 1857. }

Gentlemen of the Senate and House of Representatives :

AT the commencement of the present General Assembly, we were met on every hand by the evidences of an unusual degree of prosperity, which prevailed throughout the whole country. Our fields, for a number of years, had yielded abundant crops, and the range of prices gave assurance of a full reward to each and every branch of industry and production.

But within the last sixty days, we have witnessed the suspension of specie payments by almost the entire banking institutions of our own State, as well as those of most of the States of the Union ; the effect of which has been a sudden and wide-spread commercial revulsion derangement of the exchanges and monetary concerns of the whole country ; seriously crippling the operations of trade, and to a great extent paralysing the arm of industry and enterprise.

Whilst it is impossible for legislation to relieve the people of these evils and disastrous results, yet they may be, to some extent, ameliorated, and their recurrence prevented by wise and wholesome legislative provisions and restrictions.

In order that we may determine upon the proper remedy, it is necessary that we understand, if possible, the cause of the present panic and monetary derangement.

It is shown by the report of the Secretary of the Treasury of

the United States, to the Congress just assembled, that on the 1st of January, 1857, the immediate liabilities of the banks of the several States were as follows :

Notes in circulation,	-	-	-	-	\$214,778,822
Amount due depositors,	-	-	-	-	230,351,352

Aggregate immediate liabilities,	-	-	-	-	<u>\$445,130,174</u>
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Against which they had in specie in their vaults, \$58,349,838 ; making about (\$7.66) seven dollars and sixty-six cents of immediate liabilities for one dollar in their vaults ; showing, conclusively, that the system throughout the whole Union is unsound, unreliable, and fraught with a multitude of evils, many of which the country is now unfortunately experiencing.

The reports of the various banks in Tennessee show, that on the 1st January, 1857, their immediate liabilities were as follows :

Notes in circulation	-	-	-	-	-	\$9,021,475
Amount due depositors,	-	-	-	-	-	5,051,256

Aggregate immediate liabilities,	-	-	-	-	<u>\$14,072,731</u>
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Against which they had in specie in their vaults, \$2,325,823 ; making about six dollars of immediate liabilities, to one dollar of specie in the vaults.

And on the 1st day of July, 1857, as follows :

Notes in circulation,	-	-	-	-	-	\$6,036,982
Amount due depositors,	-	-	-	-	-	4,545,104

Aggregate immediate liabilities,	-	-	-	-	<u>\$10,582,086</u>
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Against which they had in specie in their vaults, \$2,670,751 ; making about four dollars of immediate liabilities to one dollar in specie.

From these facts, it is evident that on the 1st of January, 1857, the banks of our own State had reached a point of expansion dangerous to themselves, and injurious to the best interests of the community ; the effect having been to cheapen currency, and thereby greatly augment the prices of every species of property ; to stimulate over-trading, by offering such inducements and facilities for that character of hazard as seldom fail to lure thousands of our citizens from the fields of labor and productiveness, to the more inviting, yet more dangerous fields of speculation ; to encourage habits of luxury and wasteful extravagance, and to drive from

circulation, if not from the country, the precious metals; for it is a well-established law of trade, that two classes of currency of unequal value cannot circulate together, the more valuable always retiring from the field of unequal competition, to seek a market where it is more properly appreciated, and can be more profitably invested.

But after having expanded this bubble almost to the point of explosion, and invited their victims far out upon the dangerous chances of speculation, between the 1st of January and 1st of July, 1857, they suddenly and violently contracted their circulation from nine to about six millions of dollars. Could the banks have stopped at this point, the effect might not have been so great as not to be overcome by the energies of our people, and the wonderful resources of the country, without serious and lasting injury. But so great an expansion must necessarily have a corresponding reaction: the contraction doubtless continued in the same ratio from July to the present period, reducing their circulation to a point not far above \$3,000,000; in the meantime, having suspended specie payment, leaving, as the only alternative for the people, in their financial extremes, an irredeemable and depreciated paper as their only currency or medium of exchange, producing thereby a general and great depreciation in the price of every species of property, and almost universal panic and distress.

The history of our banking system has presented, from the beginning, one perpetual scene of expansions and contractions, producing periodically a flush in the monetary affairs of the country, which is invariably succeeded by contraction, panic, and pecuniary distress; and as long as the system is continued as at present organized, these scenes must be of frequent recurrence. A paper currency can never be safe—that is, not the actual representative of capital.

It may be confidently stated, upon the highest financial authority, that a paper currency of more than two of circulation to one of specie, or three of immediate liabilities to note-holders and depositors, to one of coin, cannot be sustained as a sound convertible currency. When the disproportion between their specie and immediate liabilities runs higher than this, the banks are, at all times, liable to be driven to suspension, if not to insolvency, and especially so where the circulation is local, as it is with all the banks in Tennessee,

Under the present system, bank notes do not represent coin or capital. Their issues are not limited by the amount of metal in their vaults ; for we have seen many of our banks issuing as high as four, five, six, and in some instances, ten dollars of their circulation for one in specie. Their notes are the mere *substitute* for coin which they have not got, and their ability to redeem them is made to depend upon their collections from their customers. The ordinary transaction between them and their customers, being purely an exchange of credits, the customer paying a premium of from six to eight per cent. per annum upon the credit of the bank.

Can this system furnish to the community what they so much need and desire, A SOUND, UNIFORM, AND CONVERTIBLE CURRENCY ? for the amount of currency is of far less importance to the people than its uniformity and soundness. And to obtain this, is the great object to be accomplished, if your Legislature would remedy existing evils.

But can this important object be accomplished as long as bank notes can be multiplied at the mere discretion of the maker, and to any extent that his avarice or cupidity may prompt ? and which is but too often multiplied, as we have seen, far beyond the limits of prudence and safety.

This currency may pass from hand to hand as a circulating medium, and for a time answer the ends of trade and commerce, but when the collapse comes, as come it must, the disastrous consequences are felt by every class of society ; the laborer is thrown out of employment, the enterprising merchant is crushed, the wheels of the manufacturer are stopped, and thousands of industrious citizens involved in irretrievable ruin.

Shall we, by our policy, longer contribute to these fatal results ?

The evil is upon us, however, and its recurrence in the future can only be prevented by eradicating the whole system, or imposing such restrictions upon it as will effectually and certainly check over-issues and violent expansions and contractions. Whether it be thought that the banks, by suspension, have forfeited their charters or not, no one doubts the authority of the sovereign power of a State to impose such additional restraints as may be necessary to secure an honest and faithful execution of the trust confided to them, or to provide such security as may be deemed necessary against the misuse and abuse of their privi-

leges, provided these restrictions and provisions do not conflict with any fundamental right, or defeat the primary objects of the incorporation. The great end and aim of the charters conferred upon our banks was to secure a sound currency; and any legislation to this end, is beyond all question, within the legitimate scope and power of the Legislature.

It is, however, believed that no sudden and radical change of policy can be adopted without inflicting serious injury upon the country, and prolonging, if not increasing, the distress.

I respectfully recommend the passage of a law requiring :

1st. That the banks shall resume specie payment upon a day fixed, and as early as practicable ; thus making our currency convertible, and re-establishing confidence to some extent at least.

2d. That from and after a given day, no bank or branch bank in the State shall issue any bill of the denomination of five dollars or under; and upon a given day, within a reasonable time thereafter, they shall issue no note or bill of the denomination of ten dollars or under; and upon a given day, within a reasonable time thereafter, they shall issue no note or bill of the denomination of twenty dollars or under.

3d. That upon a fixed day, within a reasonable time after the banks cease to issue notes or bills of the various prohibited denominations of twenty dollars and under, they shall cease to circulate, retiring them gradually—first fives and under, next tens, and lastly twenties.

The withdrawal of small notes from circulation, would not only secure a metallic one in their stead, for all the smaller operations of trade, thus lessening the evil with that class of community who are least benefited by bank accommodations, and yet are the most serious sufferers from a depreciated currency, but would tend to restrain the excessive issues of banks, and give to them, as well as to the public, a firmer basis to rest upon, in case of any unexpected revulsion in our commercial affairs.

4th. That no note or bill, issued by any bank not within the limits of the State of Tennessee, of a less denomination than our own banks are authorized to issue, shall circulate within the State. And that no banker, broker, corporation, revenue officer, or any person exercising a licensed privilege, shall pay out or circulate the notes of any other than the banks of our own State.

If private bankers are allowed to issue the notes of banks of

other States, they might usurp almost the entire circulation, while our own, under a system requiring each bank to pay out its own issues only, would be driven home for redemption. The restrictions imposed upon our banks, for the purpose of securing a sound currency, might thus fail to attain the end in view.

5th. That no bank or branch bank in the State, shall issue or put in circulation, any note or bill that is not payable in specie at the counters where the same is issued or put in circulation.

The issue by each bank, of its counter notes only, would confine the circulation of each bank to the legitimate wants of the community, upon whose trade it is predicated. It would tend to secure a sound currency in each and every neighborhood in which a bank may be located, by affording to all an opportunity of converting into coin, without expense, whatever paper might not be needed as mere matter of convenience for our internal trade.

The facility for returning the notes thus issued upon the bank for redemption, would serve as a constant check upon them, and would do much towards keeping them within safe limits. It would put an end to that system of flooding the community with the depreciated or doubtful issues of our own or foreign institutions. In my opinion, such a provision is indispensably necessary to any wholesome legislation upon the subject.

6th. That no bank shall issue more than two of circulation for one of specie in its vaults, or incur liabilities to note holders and depositors of more than three dollars for one in specie in its vaults.

7th. That the President and Cashier of each and every bank in the State shall make a monthly report, upon their oaths, to some officer of the State Government, the real condition of their respective banks at the time of the report, and that the report be published at the expense of the respective banks, in some newspaper at Nashville; and that swearing falsely to any such report, shall be deemed perjury, and punished accordingly.

8th. Such penalties and forfeitures for the violation of any of these provisions, as will secure implicit obedience to them, should be provided.

Whilst it may be admitted that the Bank of Tennessee, under the control of its present able and efficient president and directors, has been managed with an amount of skill and ability unsurpassed, if indeed it has been equalled, by any preceding boards,

both as regards profits, and the observance of those laws of banking, which tend to restrain the excessive issues of its own branches, as well as other banking institutions; yet it is by no means certain that the State will, at all times, be able to obtain either the same skill or integrity for its future management, even if it were deemed politic to perpetuate the institution. Indeed, it is fearful to contemplate the evil that might be produced, if the bank should ever fall into the hands of unskilful and dishonest men! What pecuniary loss to the State—what suffering to the people by the depreciation of its circulation! Great as these might be, they are yet as nothing compared with the injury inflicted by tampering with the freedom of the elective franchise, or the corruption, in other respects, of public morals—silently, unobserved by the world, but all the more dangerous to that high sense of integrity and morality, which are, after all, the only true safeguards to our republican institutions. It is also confidently believed that the State should not engage in banking, or any other business or speculation, in competition with her citizens, with a view to money-making, and that an institution of this character can never be so well or so successfully managed by the government, as in the hands of private enterprise, from the fact of the liability, under every new administration of the government, to an entire change of its directory and officers, resulting, very often, in an entire change in the policy of the bank. In addition to which, it may truly be said, that you rarely find the same amount of care and energy exercised in the execution of a public trust that is common to the prosecution of private and individual enterprise; and as an investment, it is confidently believed, that if the entire property of the bank was converted into money, and with the capital of the bank invested in the six per cent. bonds of the State, that it would result, ultimately, in more profit to the treasury than our present, or any other system of State banking is likely to do. Thus furnishing, to that extent, a home market for our State securities, already depreciated for the want of it, and ridding the State of the expensive and demoralizing machinery of a banking institution, and of the hazards necessarily incident to the banking business.

The President and Directors, in their report to the present session, say “ that the true interests of the State will hereafter be best promoted by a dissolution of all connection with the banks or internal improvement companies, at as early a period as the

finances of the State will admit of it, without unnecessarily oppressing the people, and with due regard to the public faith pledged to them."

I recommend that you fix a day in the future, and as soon as it can be done, without distressing our people, upon which the Bank of Tennessee and her branches be put in gradual liquidation.

The time should be fixed far enough in the future, to give all classes of the community reasonable time to adapt themselves and their business to the inauguration of the proposed policy, and the liquidation should be slow and gradual in its operation, so as to do as little violence as possible to existing interests, by withdrawing the circulation of the bank, or rapidly collecting its debts.

My distinguished predecessor has already laid before you a full statement of the financial condition of the State, showing the actual indebtedness, present and prospective liabilities, &c. I fully concur with him in recommending the sale of all the stock owned by the State in the banks and internal improvement companies, and the appropriation of the fund to the payment of the actual indebtedness of the State, believing, as I do, that the State is never profited by associations or partnerships with corporations or stock companies, and that the sooner the connection is severed the better for the interest of the State.

I also fully concur with my predecessor in recommending an amendment of the constitution of the State, so as to fix a reasonable limit, beyond which the Legislature shall not go, in creating a debt or liability of the State, without first submitting the question directly to the people, except in cases of invasion, insurrection or rebellion. Such an amendment is certainly wise and proper in itself, securing to the people the right to be consulted, and to determine for themselves, by popular vote, whether they will take upon themselves the liability proposed or not; especially in view of the fact that our legislative elections are generally made to turn much more upon party considerations and federal politics, than upon local or State policy, and most of the questions, out of which have sprung these heavy liabilities, have been very little discussed, if, indeed, they have been discussed at all, before the people, previous to their enactment.

Another salutary effect following such an amendment is, that it

would inspire confidence in such securities as the State has issued or may hereafter issue, throughout the money markets of the world; and to the extent that you convince capitalists that we have not issued, and will not issue bonds beyond our ability to pay, do you restore and appreciate the credit of the State. And in this connection, allow me earnestly to recommend, that the faith and credit of the State be no further pledged in aid of internal improvement or otherwise. The reasons for this recommendation are too palpable to require argument: a sufficient one, however, is found in the fact, that the actual indebtedness, present and prospective liabilities, of the State amounts to near twenty millions of dollars; and before we increase the aggregate liabilities of the State in aid of those works, we should see to what extent our internal improvement experiments are successful.

Under various acts of the Legislature, the State has, by the endorsement of the Governor, guaranteed the payment of the principal and interest of various bonds of certain corporations. There is no provision made for the payment of the semi-annually accruing interest, out of the State Treasury, in the event of failure to pay on the part of the corporations. The faith and credit of the State is certainly as much pledged for the prompt payment of the interest on these bonds, as it is upon the bonds of the State loaned to companies; and for the coupons to remain unpaid after maturity, is not only a breach of the good faith of the State, but it affects most injuriously her credit. I, therefore, recommend the passage of a law putting those bonds upon the same footing in this respect with the bonds of the State loaned to companies, and thus secure the payment of the interest, as well as the principal, with the same degree of promptitude.

Almost the entire indebtedness and liability of the State is evidenced by coupon bonds, a coupon being issued for each instalment of the interest. These coupons, when dissevered from the bond to which they belong, may pass from hand to hand, being good in the hands of the holder, against the Treasury for their amount; and after being paid and taken up, if by any accident they should be lost, or get out of the possession of the proper officer, they might be again presented and paid, and there are no means provided by existing laws to detect the error, so as to prevent the re-payment. I, therefore, recommend the passage of a law requiring all coupons, when paid, to be returned to the

Comptroller of the Treasury, to be by him registered, with an accurate and full description of the same, in a well-bound book to be kept for that purpose, and that they be immediately defaced by some mark of cancellation, and, at stated periods, to be by him burned, in the presence of the Governor, Treasurer, and Secretary of State, or any two of them.

All of which recommendations are respectfully submitted to your favorable consideration.

ISHAM G. HARRIS.

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